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29 August 1951

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**DAILY DIGEST**

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**Office of Current Intelligence**

**CENTRAL INTELLIGENCE AGENCY**

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SECTION 1 (SOVIET)

1. USSR. Tass representative suggests Truman-Gromyko meeting: In recent conversations with a prominent US newspaperman, Yuri Zhukov, Tass representative in Paris, discussed a possible Truman-Gromyko meeting. Zhukov asked how such a meeting could be proposed so as "to avoid embarrassment on both sides," and whether San Francisco was as satisfactory a place as Washington for the talks. Rejecting the source's suggestions that diplomatic channels be used, Zhukov apparently favored an approach by a Pravda or Tass representative in Washington to Presidential Press Secretary, Joseph Short.

Zhukov was evasive as to whether his proposal had any official Soviet sanction. He did claim, however, discussions with Gromyko and Soviet Embassy officials in Paris, and with Soviet Foreign Office officials in Moscow.

In commenting on the breakdown of Korean negotiations, Zhukov stated his belief that the talks are only temporarily suspended and that a solution could be found. He added that Moscow was eager to bring an end to the war.

Zhukov also put forward the standard line on Soviet peaceful intentions and stated that he did not receive the impression during his trip to the USSR that war was imminent. (S [REDACTED] 27 Aug 51 US OFFICIALS ONLY).

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Comment: In several conversations with this newspaperman since 2 March, Zhukov has mainly sought information concerning US intentions with regard to expanding the Korean War and the extent of American rearmament and "warmindedness." Zhukov has also consistently emphasized the possibility of talks "between the Russians and Americans alone," including a Stalin-Truman meeting.

Although the USSR could be using this devious approach to avoid a possible rebuff, no evidence exists that the USSR is actually seeking bilateral talks. Soviet officials during informal conversations quite frequently suggest a Stalin-Truman meeting. Soviet leaders may wish "to keep the door open," since such a meeting would fit in with their portrayal of the USSR as the champion of peace and with the continuing Soviet attempt to sow suspicion between the US and its Allies.

2. USSR continues to seek strategic commodities from Western Europe: During the bilateral discussions taking place as part of the East-West trade talks at Geneva, the USSR has continued its demands for strategic materials as counterpart for Soviet Orbit grain, which is badly needed by

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Western Europe.

According to the French delegation, the USSR expressed interest in the counterpart list France has presented and also in rayon fibre, steam boilers, metals (especially lead), reinforcing rods, ships and certain kinds of machinery.

In discussions with the UK delegation, the USSR asked whether manufactured goods and raw materials, e. g., wool, cotton and rubber, would be available as counterpart.

Further Swedish/USSR conversations on specific commodities will take place in bilateral negotiations scheduled for November. The Swedish delegate expressed his concern to the US observer delegation that the USSR would demand either dollars or ball bearings in settlement of the Swedish deficit under the current trade agreement.

The USSR has consistently refused to give specific figures on the quantities of grain and timber available. The Satellites have followed the Soviet example by offering grain and timber in exchange for "traditional imports from Western Europe." (C Geneva 177, 23 Aug 51; 186, 24 Aug 51; 190, 25 Aug 51; 191, 25 Aug 51).

Comment: In a previous conversation with Danish representatives, the USSR requested ships and tankers. The over-all Soviet proposal is to return to the less restrictive trade arrangements of 1949-1950.

3. Transfer of Soviet funds in Switzerland to Chinese Communist accounts: In early May 51, the USSR transferred 60 million Swiss francs to Chinese Communist accounts in Switzerland [REDACTED]

The transfer was made in three separate amounts of 20 million Swiss francs each to the Schweizerische Bankgesellschaft, the Bankverein and the Kreditanstalt. [REDACTED]

Comment: There is ample evidence that the Chinese Communists are using Swiss francs to pay for strategic and other commodities procured from West European countries. At present exchange rates, the amount transferred is approximately 14 million dollars. There are several possibilities regarding this transaction:

(a) It may be part of either the 300 million dollar Soviet loan agreement of Feb 1950, or the reported new Soviet credit of 300 million dollars covering the last seven months of 1951 to be used in meeting economic difficulties resulting from the Korean War; or

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(b) it may represent the Soviet return of dollar balances transferred to Soviet accounts from Chinese Communist accounts in the US between December 1949 and March-April 1950.

4. Reported arrival of Soviet Marshal Vasilevsky in Korea: The secret arrival of Soviet Marshal Vasilevsky in Korea is reported by the French Press Agency in Tokyo. (U FBID Tokyo, 28 Aug 51).

Comment: There is nothing to confirm the presence in Korea of Marshal A. M. Vasilevsky, Minister of the Soviet Armed Forces. In 1945 Vasilevsky was Supreme Commander of all Soviet Forces in the Far East and received the surrender of the Japanese Kwantung Army.

EASTERN EUROPE. CZECHOSLOVAKIA. New US proposal on Oatis suggested by minor Czech officials: During an informal conversation between US Embassy Secretary Johnson and two minor Czechoslovak officials, the latter gave the impression that the US was expected to make some proposal regarding the Oatis case. Ambassador Briggs comments that, although these officials are of low rank, they traveled from Prague to Bratislava for the conversation and might represent the official government view. The conversation was held after Johnson had been permitted to visit Hvasta, the US national imprisoned in Bratislava to whom access has been denied for the past 18 months. Briggs states that this apparent reversal in the Czech attitude may be a trial run prior to authorizing a visit to Oatis. 25X1C

25X1C The preliminary interrogation of [REDACTED] has provided additional information regarding the Oatis case. 25X1C

25X1C [REDACTED] the period during which Oatis was continually harrassed -- stated that he possessed facts to prove that the Oatis trial was a long-planned frame-up. He added that he believed Oatis was being well-treated. (C Prague 151, 27 Aug 51; TS Vienna 754, 27 Aug 51).

Comment: Proposed US retaliatory measures may be causing the Czech Government to reconsider the value of Oatis' imprisonment. The cancellation of overflight privileges to the Czech National airline in West Germany and the withdrawal of MFN treatment by the US as proposed for the forthcoming GATT meeting may, in the opinion of the Czech Government, adversely affect its interests far more than the release of Oatis may affect its prestige.

58. YUGOSLAVIA. Peasant discontent growing but not yet a security problem: Although peasant discontent has recently increased, the US Embassy in Belgrade notes that it does not seem to be a security problem for the regime at the moment, since the unrest has not crystallized into a political force or found a leader. The embassy credits the increase in peasant resistance to:

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(a) the vagueness of some agricultural legislation which has not mitigated peasant hardships as anticipated; and

(b) the efforts of some local Communist Party bosses to circumvent the government's promise that peasants joining cooperatives would be free to withdraw after three years.

Despite the delay in grain collection, the embassy believes that the Yugoslav Government will meet its bread rations since the regime will strongly enforce compulsory grain deliveries and has discontinued wheat exports to build up domestic stocks. (S Belgrade Joint Weeka 34, 24 Aug 51; C Belgrade 234, 23 Aug 51).

Comment: Although the government has abolished compulsory deliveries on some agricultural products and reduced compulsory grain delivery quotas on others, peasant resistance has nevertheless mounted. Yugoslav leaders have made clear, however, their determination to preserve the cooperatives. Local officials have recently arrested peasants seeking to withdraw from cooperatives, and the government recently issued a stiff warning to lawyers against providing legal services to peasants who are petitioning to withdraw from cooperatives.

Technical training plan progresses: The Yugoslav Government has presented to the US Embassy in Belgrade a project for training 112 Yugoslav workers for ten to twelve month periods in US metals, machine and fuel industries. Ambassador Allen believes that the US visa policy would make it feasible to admit these workers, since the proposed trainees would, in all likelihood, be government employees. (C Belgrade 257, 27 Aug 51).

Comment: In early July a Yugoslav official informed the US Embassy in Belgrade that the Yugoslav Government would like to send to the US for on-the-job-training an initial group of about 100 trainees for a six month period, with larger groups to follow. Since the lack of skilled labor is a basic cause of Yugoslav economic difficulties, such a trainee program should prove beneficial to US efforts to bolster the Yugoslav economy.

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SECTION 2 (EASTERN)

1. IRAN. Possibility of anti-British violence in Iranian oil installations reduced: All non-Iranian AIOC employees have now been evacuated from Iran, with the exception of 350 British subjects and 210 Indian and Pakistani employees who are stationed in Abadan. The smaller number of non-Iranians materially reduces the likelihood of violence and the consequent possibility of British armed intervention. (S USARMA Tehran, M210, 27 Aug 51).

Comment: The transfer of British personnel from outlying installations to Abadan likewise makes it easier to provide them with full police protection, lessens the chance of isolated incidents, and makes their evacuation a simpler problem.

2. BURMA. Plan to establish a Communist regime in north Burma outlined: Two battalions of Burmese Communists and Kachin tribesmen, who have been trained and armed in Yunnan, will reportedly invade the Kachin and Shan states of northern Burma in late September. He added that the Kachin forces will be led by the notorious Kachin renegade Naw Seng, and that Burmese Communist leader Thakin Than Tun will be recognized by Communist China as the ruling authority in the area after it is occupied.

Comment: This report fits logically into the pattern of developments in northern Burma during the past several months. Naw Seng and a group of pro-Communist Kachins and Burmese have been receiving training in Yunnan for over a year. Their early return to Burma has been predicted recently by many sources.

The steady movement of Communist forces in Burma northward to the Chinese frontier has been reliably reported to be a tactic in the creation of a "liberated area" with assistance from China.

Peiping's recognition of the Viet Minh in Indochina, when Ho Chi Minh's regime appeared to be successfully opposing the French, affords a precedent for Chinese Communist recognition of a similar "people's" regime in Burma.

3. INDONESIA. Press reports of lawless incidents increase: US Ambassador Cochran reports that the number of lawless incidents reported by the local press during the past week has been greater than for any week during the previous two or three months. Cochran points out that either

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the government has relaxed press censorship or insecurity has greatly increased, and he suspects the former reason is more probable. He believes that the government, in hope of gaining popular support for its strong measures against dissident groups, may be embarking on a campaign to inform the populace of the true seriousness of current insecurity.

Strict press censorship continues in the Celebes. However, there are frequent rumors of heavy fighting in progress between government security forces and four guerrilla battalions which returned to the hills on 21 August (see Daily Digest, 17 Aug 51). (C Djakarta 314, 25 Aug 61).

Comment: In anticipation of widespread Communist and Communist-inspired disturbances on 17 August and for several days thereafter, the government made a series of arrests, variously reported as numbering between 800 and 2,000 persons. The arrests apparently are continuing, although on a much smaller scale.

4. CHINA. Old rumors of Mongolian troops and Satellite "volunteers" are revived: It was rumored in Pyongyang in mid-August that (a) two divisions of Mongolian troops were about to be committed to the Korean conflict, (b) Satellite "volunteers" were soon to appear in Korea, and (c) a new type of Soviet jet aircraft, which can "reach the US within six hours," will be employed against the US if the latter makes an atomic attack on the USSR. [REDACTED]

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Comment: Rumors of the imminent commitment of Mongolian forces and Satellite volunteers have been current for several months; it remains doubtful that the Mongolians could spare this number of troops, or that Communist forces in Korea would require either Mongolian or Satellite forces unless in small numbers for propaganda purposes. The rumor of the new Soviet jet is worthless as intelligence: an assessment of aircraft capabilities requires more detailed information; in addition, Soviet jets could reach US territory in six minutes from the Chukotsk Peninsula. The above report is significant only as an illustration of Communist efforts to keep up the morale of their troops for further action.

5. Air activity nil at Nanning: The US Air Attache, Saigon, reports that a thoroughly reliable source recently observed the condition of Nanning airfield in Kwangsi province and saw no indication of any activity. According to the source, there has been no change in the airfield since 1945, although the airfield seemed to be in a good state of repair. (TS HQ USAF 2-20624, 17 Aug 51).

Comment: This evidence is particularly significant in that it con-

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tradicts recent rumors of Sino-Soviet development and use of Nanning as an active airbase to support Viet Minh operations in Indochina.

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6. KOREA. Communist air force prepares for truce talk breakdown: [REDACTED] the Chinese Communists and the North Koreans have built up in Manchuria a force of "1,200 first line planes" in preparation for the "breakup" of the truce talks. Three hundred of these aircraft will be operating over North Korea "by the end of September." Additionally, source states that three airfields (all in northeastern Korea) have been "greatly expanded" and equipped with underground hangars. [REDACTED] [REDACTED]
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Comment: This source's estimate of the number of aircraft available to Communist forces is reasonable. It is doubtful, however, that only three hundred of these aircraft would be committed at one time in the Korean campaign.

7. Communists allege new violations of the Kaesong neutral zone: A 26 August broadcast in Korean from Radio Peiping alleges two new violations of the neutral zone on 25 August. The propaganda broadcast concludes with the statement "It is obvious that Ridgway planned in advance to halt the Kaesong armistice parley." (R FBID Radio Peiping, 26 Aug 51).

Comment: The Communist propaganda machine appears to be laying the groundwork for accusing the UN of negotiating in bad faith and being responsible for terminating the cease-fire talks.

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SECTION 3 (WESTERN)

1. GERMANY. Latest Schumacher views on rearmament arouse official optimism: In expressing his latest views on the question of West German rearmament Kurt Schumacher, leader of the Social Democratic opposition party, has told US officials that he could not support German rearmament until the Allies had made it clear that they intended to defend Western Europe with aggressive strategy in the event of war. The Social Democratic chief also insisted on the separation of the defense contribution issue from that of Germany's new political status, since coupling the issues implied that Germany was buying liberty with her troops.

Chancellor Adenauer's chief defense adviser, Theodor Blank, comments that Schumacher has been persuaded to abandon his former insistence upon enough Western divisions to carry any war east of the Elbe, in favor of this new demand merely for proof of an aggressive Allied strategy of defense. Blank warns that Schumacher's emphasis on separating the sovereignty and rearmament issues is a device to permit the Social Democratic leader to accept the German-Allied decisions regarding the first and reject those regarding the second.

Blank himself feels the need for a strong Allied declaration indicating the readiness of NATO to defend all Western Europe. He optimistically believes that such declaration, tied to a convention returning much of German sovereignty and pledging a German defense contribution, could not be turned down by Schumacher in the Parliament. Blank also believes that, in view of the progress in the Paris army talks, concrete defense proposals could be made to the Parliament by the end of September. (C Bonn 132, 25 Aug 51; S Frankfurt 1780, 26 Aug 51)

Comment: Schumacher has made many conflicting and ambiguous statements on rearmament in the past. Although the latest statement may represent a slight retreat from his usual unyielding opposition, there is no evidence that Schumacher is ready to back down appreciably on this issue. It still appears doubtful that, despite Blank's optimism, the government would present any rearmament proposals to the Parliament as soon as late September.

2. FRENCH TOGOLAND. Political dissatisfaction erupts in riot: At least seven persons were killed and several wounded on 23 August when police fired on several hundred rioters in a small village in the French Trust Territory of Togoland. Conflicting accounts included the published version that gendarmes had killed 10 persons because the villagers refused to accept the elected chief, preferring the defeated popular candidate. The French Governor, however, has stated that the police fired in self-defense when attacked by several hundred armed natives. (U Accra 34, 27 Aug 51)

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Comment: Political agitation in this area has been accentuated since the French-controlled 17 June elections in which the popular party candidate lost to the administration-sponsored candidate. One of the Togolese tribes, the Ewes, has been very active in seeking UN Trusteeship Council support for a union of the British and French trusteeships in an independent Togoland. Such incidents as this riot will be used by all the Ewes to increase dissatisfaction among the anti-French natives in an effort to secure French withdrawal from the area.

3. NETHERLANDS-FRANCE. Dutch favor but French oppose German participation in NATO: The Dutch Foreign Minister has stated that, without exception, all Netherlands parliamentary leaders favor removing restrictions on West Germany concerning its international relations and its full participation in NATO as well as in other European organizations.

On the other hand, a French Foreign Office spokesman has stated that admission of Germany in NATO would be regarded in France as making that organization more of an anti-Soviet alliance. French public opinion has looked upon NATO as security "almost as much against Germany" as against the USSR. However, no answer was given to the question of why Germany's admission to NATO should be more objectionable than its inclusion in the European Defense Forces. (S London 263, 24 Aug 51; S The Hague 207, 25 Aug 51)

Comment: The Dutch attitude is an elaboration of the Dutch NATO delegate's recent view that German membership is considered an essential element in NATO control of the European Defense Forces.

There is no indication, however, that the French Government has changed its adamant stand taken by Foreign Minister Schuman before the Assembly in 1949, against the admission of Germany to NATO. It is most unlikely, moreover, that the unstable French Government would favor Germany's admission while its contractual relations with the Western Allies and its contribution to the proposed European Defense Forces are still under discussion.

4. AUSTRIA. Poland to receive shipments of Austrian ball-bearings: The Austrian Foreign Office, the US Legation, and the Steyr works, producers of ball-bearings, have reached a tentative agreement on limited export of Austrian ball-bearings to Poland. A contingent commercial coal contract will in consequence be signed this week. The Austrians will accept orders for \$800,000 worth of both embargoed and non-embargoed types of bearings. (Apparently the Poles will not begin coal shipments below this figure.) Steyr, however, will give long-delivery terms on embargo types, and will exclude bearings of direct military significance.

The actual export of embargoed bearings will be confined to 10% of total deliveries, distributed evenly on a quarterly basis; deliveries of

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restricted types will be reported to the US Legation. It is anticipated that the Austrians may receive Polish coal for 3-4 months, or, until such time as the Poles become dissatisfied with the rate of Austrian deliveries. When the Poles raise the issue again, it appears that the only alternatives are to provide US coal, or allow increased shipments of strategic goods to the East. (S Vienna 746, 24 Aug 51)

Comment: Previous efforts to find alternatives to Austria's dependence on Polish coal have until now produced no practicable solutions (see OCI Daily Digest, 23 Aug 51). The unavailability of West German and British coal, the unwillingness of the US to offer firm commitments of further American assistance, and the over-all weakness of the Austrian balance of payments position have augmented Austrian vulnerability to Polish pressure. The tactic of Austrian default is of limited and strictly temporary usefulness.

5. SOUTH, CENTRAL, AND EAST AFRICA. African defense conference focuses on transportation and communications: Transportation of troops and supplies and maintenance of communications in time of war are the major topics under discussion at the African defense facilities conference currently being held in Nairobi, Kenya, on the joint invitation of the UK and the Union of South Africa. These two powers are anxious to ensure that all transport facilities will be readily available on a reciprocal basis, particularly those needed to speed the northward movement of South African troops. Southern Rhodesia is also playing an active part in the conference, seeing its wartime role as not only offering transit facilities, but also providing some troops. The Portuguese anticipate extensive use of their facilities by other powers, but would expect those powers to bear the costs involved. The other two African colonial powers, France and Italy, are also participating in the conference. (C Nairobi 14, 25 Aug 51)

Comment: This defense conference is noteworthy for the cooperation evidenced between the UK and the Union of South Africa, despite existing differences on various political questions. The eagerness displayed by the Union in trying to facilitate the northward movement of its troops indicates its appreciation of South Africa's national interest in the defense of the Middle East.

6. CHILE. Government denounces labor leaders' disappearance as plot: The Chilean government, through a controlled newspaper, has denounced the recent disappearance of two prominent labor leaders--found on 27 August--as part of a "Nazi-Communist plot to create anarchy as prelude to a possible coup." The men, one a Communist and the other a leftist Popular Socialist partyman, disappeared shortly after the 23 August Santiago "march of hunger," a Communist-inspired anti-government, anti-US demonstration organized chiefly by the two men. Following an urgent cabinet

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meeting on 24 August, all political party leaders except those of the Popular Socialist, People's Democratic, and Ibanez del Campo groups expressed to the President a willingness to back the government in insuring public order. The Communists seized the opportunity to denounce the government as totalitarian and anti-labor. US Embassy Santiago stated that "the seriousness of the disappearance is considerable in the context of current labor unrest and political demonstrations," and that "the government is probably truthful in denying implication" in the scheme. (R Santiago 108, 25 Aug 51; La Prensa, NY, 28 Aug 51)

25X1C      Comment: Official government policy on recent mass demonstrations such as the "march of hunger" has been one of relaxed tolerance and careful vigilance aimed at avoiding incidents which might be turned against the government. [REDACTED] in early June General Ibanez del Campo, presidential candidate accused of uniting with Nazi elements of the Agrarian Laborite Party, and the pro-Ibanez faction of the Communist Party approved a Popular Socialist's plan calling for an attempt to cause the fall of the present government within 60 days by means of a series of crippling strikes. While there have been indications that the Ibanista forces--convinced of legal victory in 1952--do not wish to back a coup, it is likely that Ibanez would support, though indirectly, opposition efforts to cause confusion directed toward weakening the government or causing its downfall. Also, it is possible that Ibanez might attempt to take over the government should he feel the political situation is getting out of hand.

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SECTION 2 (EASTERN)

1. CHINA. Peiping reportedly "disturbed" by Soviet attendance at San Francisco: The French Consul General in Peiping reports rumors to the effect that Chinese Communist leaders are "disturbed" by Soviet acceptance of an invitation to the Japanese peace treaty conference. The French official speculates that these rumors may have "some relation" to the recent recall of the Soviet Ambassador. (S, S/S Paris 1252, 27 Aug 51).

Comment: Although Peiping's leaders may have been disconcerted by Soviet acceptance of the invitation to San Francisco, there is no evidence to support rumors that they are now "disturbed" by it. The Chinese Communists probably stand to gain from Soviet representations on their behalf at San Francisco, and it is possible that a Soviet desire to champion Peiping contributed to the decision to attend. The recall on 3 August of the Soviet Ambassador to China may be connected with Soviet preparations for the San Francisco conference.

2. JAPAN. Agreement sought on Portuguese claims arising from Japanese occupation of Timor: The Government of Portugal has requested that some recognition be given, at the time the Japanese peace treaty is signed, to Portugal's indirect assistance to the US and UK during World War II. It proposes that a formula be found to permit Portugal to seek settlement with Japan for claims arising from the Japanese occupation of Timor. The Department believes that this is an important issue in US relations with Portugal, which are now at a crucial point in negotiations for essential military facilities in the Azores. It has, therefore, requested the US Political Advisor in Tokyo to approach the Japanese Government and obtain its agreement to an exchange of notes to be announced when the peace treaty is signed. (S, S/S to Tokyo 10794, 27 Aug 51).

Comment: The draft treaty commits Japan to enter into negotiations for reparations with any of the Allied countries whose territory was occupied by Japan; this provision would not, however, apply to Portugal, which did not declare war. Japan, however, in an effort to regain international good will, undoubtedly will endeavor to gain early agreement in principle on the settlement of claims with neutral nations, which in the case of Timor would be based on a moral as well as legal obligation.

SECTION 3 (WESTERN)

3. UNITED KINGDOM. Embassy forecasts British Far East views at coming tripartite meeting: US Embassy London makes the following forecast of the position Britain will take on Far Eastern problems at the tripartite Foreign

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Ministers' talks planned to follow the San Francisco Conference:

1. Britain is anxious to pave the way for a general Far Eastern settlement, and regards a Korean armistice as the first indispensable step in that direction. Foreign Secretary Morrison may suggest that an armistice be followed up with general talks outside the UN in order to facilitate participation by the Peiping Government. The scope of these talks would depend upon reaching an agreement with regard to Korea. However, if the armistice talks fail, the chief British concern is that the US might be tempted to renew a "full-scale military effort." Morrison will probably express the hope that the fighting might degenerate into a stalemate at approximately the current position, and may ask for assurances that the US will not attempt a full-scale effort unless the Communists launch a major air offensive. The Embassy states that in the event of such intervention, Britain would probably be prepared to accept a full-scale war with China, "perhaps leading to general war."

2. The British feel that the general Western policy toward Communist China should be one of "containment without interference in internal affairs." In this connection, Morrison will probably express the hope that the US might ultimately reaffirm its earlier pledge not to veto UN membership for the Peiping regime, especially if programs can be made in settling the political aspects of the Korean affair.

3. The British would oppose any French moves at this time to demand a Chinese Communist non-aggression pledge on behalf of Indochina, or to obtain a US-UK guarantee of Indochina's borders. In the UK view, the former would be worthless, and the latter contrary to the British "allergy" toward unnecessary extensions of their defensive responsibilities.

4. The British are not "overly concerned" regarding Formosa. However, Morrison will probably ask US assurances that the aid given to Chiang is intended and actually used for defensive purposes, and not to prepare for what the British feel would be ill-advised attempts to invade the mainland. (S, S/S London 1077, 27 Aug 51).

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